

Testimony in Support of Bill Relating to Minimum Wage: HB5802

House Committee on Finance

March 11, 2021

The Economic Progress Institute supports Representative Lombardi's bill H5802, which would limit the harms of deferred deposit transactions that drive the payday loan industry in Rhode Island. *This bill would cap payday loans with APRs of 28 percent, in contrast to the 260 percent rates charged currently.* This bill also helps by extending the repayment period and limits excessive fees.

Payday loans, such as those permitted in Rhode Island, are high-cost loans structured to perpetuate an ongoing cycle of debt. The debt trap is integral to the success of the payday lending model, with "75% of all payday loan fees... generated from borrowers with more than 10 loans a year."¹ The federal Consumer Financial Protection Bureau (CFPB) has done extensive research on payday lending practices, finding that the average payday loan consumer gets caught in a cycle of debt (see Figure 1), taking out 10 loans per year due to an inability to pay off the balance with the constantly growing fees.² In brief, the Center for Responsible Lending (CRL) explains, "payday lenders are actually providing access to debt, not credit."³

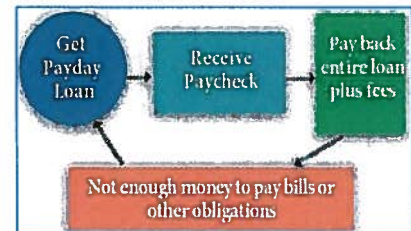


Figure 1: The Payday Loan Cycle of Debt

Consumers relying on payday lenders face considerable harm associated with payday loans, including increased difficulty paying bills, delayed medical spending, involuntary bank account closure, higher likelihood of filing for bankruptcy, and decreased job performance.

Payday lenders also increase wealth disparities by disproportionately targeting people of color, as Figure 2 demonstrates.

Industry advocates claim that payday lending meets a need that is not otherwise adequately addressed. However, there exist better options. Bank of America recently introduced a new product, short-term loans of up to \$500, with only a flat \$5 loan fee and no overdraft fees, and effective APRs between 6 and 30 percent.⁴ It seems likely that other large banks will follow with similar products.

Also in Rhode Island, the Capital Good Fund, with its mission "to create pathways out of poverty through equitable financial services," offers emergency loans valued between \$300 and \$500 with an APR of 10 percent, as well as monthly repayment over one year and no closing fee. This stands in stark contrast with payday loans and their APRs of up to 260 percent. Even putting money on a credit card, with an APR of 23.74 percent, compares favorably with payday loans.⁵

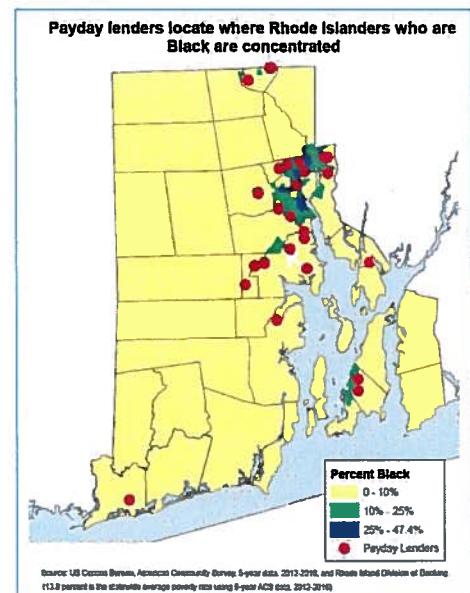
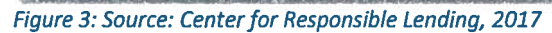


Figure 2: Locations of Payday Lenders in RI

Rhode Island should follow the lead of the Defense Department and cap loans at least at 36 percent. Payday loans are harmful to consumers and hurt the economy. HB5802 would provide Rhode Islanders with valuable protections from the predatory loan industry, and we urge you to pass this bill.



⁵ The national organization Bank On, with 74 coalition members in 30 states and the District of Columbia, works to increase the range and number of safe and affordable banking options for low-income borrowers. Bank On's goal "is to ensure that everyone has access to a safe and affordable bank or credit union account." See <https://joinbankon.org/>.